INTRODUCTION TO THE GST

GST
GST
GST
GST

FOR ARTS ORGANIZATIONS

$5.00
(GST Included)

THE CANADA COUNCIL AND
THE CANADIAN CONFERENCE OF THE ARTS

ACKNOWLEDGEMENTS

This *Introduction to the* GST was prepared for the Canada Council and the Canadian Conference of the Arts by Ernst and Young, E. Jane Condon, and Stanley Farber of Perley-Robertson, Panet, Hill and McDougall.

The Canadian Conference of the Arts and the Canada Council wish to thank Edith Yeomans and Peter Weinrich, CCA Subcommittee on Taxation.

The Canadian Conference of the Arts gratefully acknowledges the generosity of the Woodlawn Arts Foundation and Cultural Support Services, Inc.

Ce document est disponible en français.

K23-13/1991 E
ISBN 0-660-14177-9

TABLE OF CONTENTS

(cont'd)

EXHIBITS

1

INTRODUCTION

This guide to the Goods and Services Tax has been prepared for organizations funded by the Canada Council and for members of the Canadian Conference of the Arts. The GST, which became effective January 1, 1991, applies to most sales and purchases of goods and services in Canada, including those of arts organizations.

Arts companies and associations take different forms — some are profit-oriented, others are not-for-profit, many are registered charities. They offer a wide variety of goods and services to arts audiences and to their members.

Since the GST legislation takes many of these differences into account, the impact of the new tax on any particular organization depends, to a large extent, on the nature and size of the organization itself and on the type of goods or services it provides.

Readers should not expect this guide to provide all the answers. It offers a basic introduction to the GST and includes the most up-to-date information available at the time of writing, but there will inevitably be clarifications, and possibly even amendments to the law, subsequent to publication. Accordingly, the Canada Council and the Canadian Conference of the Arts cannot be held bound or liable by the information provided in this guide. Professional guidance is always advisable to address specific situations, and Revenue Canada Excise Offices across the country will answer any questions.

The basic mechanics of the new tax are outlined first, followed by specific applications. The GST legislation is technical and can be complex; it often uses language and concepts in a unique manner. In order to be as accurate as possible for as many organizations as possible, much of the specialized vocabulary is used here. Words in *italics* are included in a glossary at the back.

This guide addresses the effects of GST on organizations within the artistic community. A similar guide has been prepared for individuals. Both are available through the Canada Council and the Canadian Conference of the Arts.

July 1991

2
BASIC CONCEPTS

To understand the basic theory and mechanics of GST, it is helpful to be familiar with some key words:

- ***business*** — generally involves the supply of taxable *goods* and *services* for payment;
- ***commercial activity*** — includes, among other things, the carrying on of a business, whether or not the organization is non-profit, and activities such as the supply of certain real property;
- ***goods*** — property of any kind, a right or interest of any kind, but not including money;
- ***input*** — materials and services used in the creation/production of goods or services; used in providing supplies;
- ***person*** — for GST purposes, the definition is broad and includes an individual, partnership, corporation, society, union, club, commission or other organization of any kind;
- ***service*** — anything other than property, money, employment;
- ***supply*** — any "sale" of property or service, in any manner whatsoever — sale, barter, exchange, transfer, licence, rental, lease, disposition or gift.

1. How GST Works

The GST is a federal tax on the consumption of *goods* and *services* in Canada, replacing the old *federal sales tax* (FST). As a tax on spending, the GST is designed so that the cost is borne by the final consumer or purchaser. The tax is collected by *businesses* or *suppliers* (including arts organizations) throughout the production and distribution chain. The tax is charged, usually at the rate of 7%, on taxable *supplies* — the sale of *goods* or provision of most *services* — and is payable at the time of purchase. The tax applies on each transaction (supply) with each supplier acting as an agent of the government by collecting and remitting the tax at regular intervals. Tax the supplier pays on purchases to produce *taxable supplies* is deducted from tax collected from consumers (through a mechanism called *input tax credits*) and the balance is remitted to the government.

The GST is unlike the old FST or provincial sales taxes, which apply only once, at the time of sale by the manufacturer or retailer. The GST is a multi-stage sales tax, applying each time a good or service is sold: it applies at each trade level from raw materials collection and primary processing to manufacturing, wholesaling and retailing. *Persons* making taxable supplies collect GST from each client or customer. They also recover the GST they paid on their purchases of raw materials or other *inputs* used to produce the *good* or *service*; the recovery mechanism is referred to as an input tax credit. On a periodic basis, the collector of the tax remits the difference between the GST charged on sales and the GST it was charged on purchases. If GST on purchases exceeds the GST on sales, the supplier will receive a refund.

EXHIBIT 1

TAXABLE SALE OF THEATRE PROGRAMS

	Sales $	7% GST On Sales $	Less Input Tax Credit $	Equals Net Tax Remitted $
Wood*	100	7	0	7
Paper	300	21	7	14
Printer	600	42	21	21
Theatre	900	63	42	21
Consumers pay				63

* This example assumes that the wood supplier had no purchases.

Commentary:

As can be seen, each person in the chain is required to collect the 7% tax but receives a full input tax credit for the tax paid on business purchases. The end result is that none of the businesses pay any GST. It is all collected from the end consumer. The government receives the amount collected from the consumer but in portions from each person in the chain. Ultimately, the goods or services are sold to an end consumer, who bears the full tax of 7% on the retail price.

The result is that each time goods or services are further processed, although the GST applies to the sale price or service fee, it effectively applies only to the value added by that vendor. Ultimately, the goods or services are sold to an end consumer, who bears the full tax of 7% on the retail price. Exhibit 1 illustrates the basic application of GST to a commercial sale or taxable supply of theatre programs through the entire production and distribution chain.

2. What is Taxed

The vast majority of transactions in Canada are taxable because they involve the provision of *taxable supplies* (which include zero-rated supplies). However, there are some transactions which are not considered to be *supplies* and which, therefore, are not part of the GST regime. These include employee salaries and benefits, grants and donations, prizes and awards, and sales by those not registered for GST.

Since direct grants and donations of money are normally outside the scope of the GST system, there are usually no GST consequences for the donor or grantor, or the recipient. This is true whether the grant or donation is made to an individual or an organization.

Whether or not a given supply is taxable generally depends on two things — the nature of the supply itself and the nature of the supplier (the *person* providing the good or service).

3. Types of Supplies

While the term "supply" is often synonymous with sale, it also includes:

- leases;
- the sale of admissions;
- the assignment of rights under a contract;
- licensing of a person to use a copyright or patent;
- barter or exchange of property or services;
- the giving of gifts and promotional distributions;
- sale or other transfers of real property; and
- giving of an option to purchase land.

In addition, certain activities are deemed to be supplies on which tax could apply. These are discussed on page 25.

The provision of goods and services can generally be categorized into two types of supplies: *taxable* and *exempt*. The distinction between these types of supplies is critical. Only those providing *taxable supplies* can claim *input tax credits* and recover the GST they paid on purchases to make the supplies (discussed on page 9).

EXHIBIT 2

ZERO-RATED SUPPLIES

- goods and services exported from Canada
- international passenger or freight transportation (beyond continental USA)
- basic groceries, not including restaurant meals and take-out foods, not including alcohol, snack foods and sweetened baked goods
- supplies to diplomats and international organizations
- certain financial services
- initial sales or importations of precious metals
- prescription drugs and medical devices
- certain agricultural and fishery products
- machinery and equipment designed for use by farmers and fishermen

(a) Taxable Supplies

Taxable supplies include most *goods* and *services* provided in the Canadian economy. For the first time many of the activities of arts organizations are taxable as are many more of the goods and services they buy.

Among the *taxable supplies* of arts organizations are admissions — to professional performances, galleries, museums, cinemas; broadcast and recording fees; copyright and other intellectual property licences; advertising; gift shop and concession sales; books and magazines; sale and rental of artworks, sets, costumes; and, possibly, membership fees. And among the taxable *inputs* (purchases) of arts organizations are fees to performers and technicians, purchases of artworks, accountants' fees, materials for sets and costumes, royalties and residuals, commercial rent, heat, electricity, stationery and office equipment.

Anything that might be in any way *commercial* is probably taxable, unless it is provided by a *charity* or a *non-profit organization* receiving substantial (more than 40%) government support (*suppliers* are discussed on page 7).

There are two categories of *taxable supplies*: those taxed at 7% and those taxed at 0% — known as *zero-rated*. Most taxable supplies are subject to tax at the rate of 7% but there is a limited list of goods and services taxable at a rate of 0%. Because zero-rated supplies are taxable, even though no tax (tax at 0%) is charged, the suppliers are entitled to claim *input tax credits*. These goods are sometimes called tax-free goods. Some goods and services qualifying for zero-rating are summarized in Exhibit 2.

(b) Exempt Supplies

If supplies are not taxable, they are exempt. Those providing *exempt* goods and services do not charge GST and cannot claim *input tax credits* for their taxable purchases. As a result, the GST paid on purchases by someone selling exempt supplies is buried in the price of the goods (much as it was under the old *FST*) and costs of production go up. An organization has two choices: raise prices to maintain real revenue levels or absorb the additional costs. In either case, *exempt supplies* contain an element of GST, even when the organization is eligible for some rebate (see page 10).

The effect of this is compounded when exempt supplies are sold to GST *registrants*. While registrants are entitled to input tax credits for GST paid on taxable purchases, there is no way to recover any GST hidden in tax-exempt purchases. This buried GST then becomes part of the registrant's selling price on which GST is collected, and the result is double taxation or tax cascading.

Exhibit 3 illustrates the effect of providing tax-exempt supplies and Exhibit 4 summarizes those goods and services which are tax exempt.

EXHIBIT 3

TAX-EXEMPT EXAMPLE

	Amount ($)	GST ($)
Miscellaneous purchases from various suppliers	10,000	700
Sale Price	12,000	Nil

Commentary:
Because the supply is exempt the organization does not charge any GST and is not entitled to any input tax credit for the GST paid on its purchases. Its costs have therefore increased by $700. (Conversely, if the sale were taxable, the organization would claim the $700 GST paid on its purchases and charge $840 GST on the sales, remitting the net amount of $140 to the government.) (Under certain circumstances, some organizations selling exempt supplies can recover part of the GST paid.)

EXHIBIT 4

TAX-EXEMPT SUPPLIES

- certain supplies by *charities, non-profit organizations*, municipalities, federal and provincial governments, and other *public service bodies*
- health care, child care and legal aid services
- educational instruction provided by elementary and secondary schools , publicly funded colleges and universities, and private secretarial schools and business colleges
- most domestic financial services
- sales of used residential housing and rentals of residential premises
- certain intra-group financial services

4. Types of Suppliers

The majority of suppliers in Canada, including most arts organizations, provide exclusively taxable (including zero-rated) supplies, and GST applies as described above. However, in recognizing that charities and non-profit organizations would incur higher costs because of the broader tax base, the GST legislation makes special provisions for *charities* and other *public service bodies*. Some of these special provisions override the generally applicable GST rules.

As a result, determination of whether a supply is taxable or exempt often depends on the nature of the organization — for-profit, not-for-profit, or registered charity; the arts community encompasses all.

(a) For-Profit Companies

For-profit businesses are, in all likelihood, engaged exclusively in taxable commercial activity (although exports would be zero-rated).

(b) Registered Charities and Non-profit Organizations

Most registered charities are engaged primarily in exempt activities, but most charities in the arts sector are engaged in taxable activities. Taxable activities by charities are specifically listed in the legislation and include:

- zero-rated goods and services which are not exempt by virtue of being provided for nominal consideration (i.e. below their *direct cost* or free of charge)
- sales of new goods and related services
- catering contracts
- admissions to a place of amusement
- memberships which provide for an admission to a place of amusement
- services of performing artists made to a person who charges taxable admissions for the performance
- supplies made by a charity to itself because of a change of use from taxable to exempt
- property used in commercial activities of a registered charity immediately before the property is sold
- services or memberships providing the right to supervision or instruction in any recreational or athletic activity
- a right to play or participate in a game of chance
- instruction of individuals or administering exams where the supply is made by a vocational school, school authority, public college or university
- admissions to a seminar, conference or similar event supplied by a university or public college

This short list of taxable supplies by registered charities includes most activities of arts organizations. But, with some exceptions, if a charity provides supplies made principally by volunteers, these are exempt — even if the supply would otherwise be taxable. Under the Volunteer Exemption, supplies offered by registered charities relying almost entirely (90% or more) on volunteers are exempt as follows if:

- in the ordinary course of its business, at least 90% of the day-to-day operations and the general functions in carrying on the business is by volunteers;
- not in the ordinary course of its business (an exceptional event), the administration and the performing is at least 90% by volunteers.

In addition to the overriding volunteer exemption, certain other overriding exemptions are available to registered charities as well as to non-profit organizations. These are discussed below.

Special rules exist for non-profit organizations. The general rule for *supplies* made by non-profit organizations (including charities) is that they are taxable unless a specific exemption exists. The major exemptions for non-profit organizations as they apply to the arts community include:

(i) Nominal Consideration

Admission fees are exempt when the revenue earned from admissions does not exceed the direct cost of running the activity. Direct cost is defined narrowly as the total cost of goods (articles and materials) used to provide the admission, such as the cost of stage sets and costumes or materials used to erect an art show. It also includes the cost of goods or services purchased for "resale" as part of the cost of admission (i.e. food and drink included in admissions). It does not include the cost of labour or capital, usually the most significant cost, nor purchases of services, such as security, cleaning, contracting of actors or musicians, insurance or services provided by employees.

The following supplies fall into the nominal consideration category:

- admissions by any *public service body* including *non-profit organizations* where the price of the admission or the revenue earned from the event, including admissions and other supplies, does not or could not reasonably be expected to exceed the direct cost of the event or activity;
- admissions made by a public sector body for films, slide shows or similar presentations where admissions could not reasonably be expected to exceed the direct cost of the presentation;
- admissions to a place of amusement where the maximum admission price is $1 or less; and
- where all, or substantially all, admissions are provided for no fee.

(ii) Amateur Performances

Admissions to amateur performances are exempt where at least 90% of the performers do not directly or indirectly receive remuneration other than grants from government or compensation for travel or other incidental expenses. No advertisement for the performance may feature the participants who are remunerated, nor may "prizes" etc. be used to compensate professional performers.

(iii) Certain Fundraising Activities

The rules with respect to fundraising activities are discussed on page 29.

(iv) Memberships

The GST legislation provides special rules for membership fees for *public service bodies*. Provided the benefits of a membership are no more than indirect benefits intended to accrue to all members collectively, the membership is exempt. Such indirect benefits include:

- the right to receive investigation, conciliation or complaints settlement services for issues arising between members;
- the right to vote at meetings;
- the right to receive periodic newsletters; or
- the right to receive property or services equal to the fair market value of the property or services at the time of supply by the service organization.

Once the membership provides additional goods and services which would normally attract GST if they were provided separately rather than as part of a membership fee, the membership fee becomes taxable. And, if the organization provides services such as recreational, dining or sporting facilities as part of a membership, its memberships are automatically taxable.

Often, memberships also provide members with the right to attend special events or to receive certain goods or services for a separate price. Where the price is set below the fair market value, the benefits received from membership would be considered to be in excess of that which is allowable and the membership would be taxable. For example, if membership allowed participation in a purchasing program where goods or services are purchased in bulk by the service organization for resale to members, the resale price would be critical in determining the tax status of the membership. If the resale price is below fair market value, both the supply and the membership would be taxable.

The supply of periodic newsletters, reports or publications by service organizations does not make membership taxable provided the value of the publications is insignificant in relation to the cost of the membership, or the publications merely provide information about the activities of the body or its financial status. If the publications are provided free of charge to members but non-members are normally charged a fee for them, membership would be taxable.

An organization may decide, and file an election with the Minister, to be taxable on its membership sales. An organization may make this election if most of its members are engaged in making taxable supplies and would be eligible for an input tax credit for GST paid on the membership. Once the memberships are taxable, the organization is required to collect GST on the membership fee and is entitled to a full input tax credit for GST paid on purchases for such things as the annual meeting, costs of publications and other purchases related to membership. The decision has to be considered in light of the preference of the members.

Members engaged in making taxable supplies would prefer memberships to be taxable as both they and the organization would be entitled to recover the GST paid on membership. If the membership fee were exempt, GST on related expenses could not be recovered and might have to be buried in the fee. Therefore, in making the election, the organization providing the membership has to take into account the disadvantage to those "exempt" members unable to recover the GST on the membership fee and the increased cost of membership to all members if GST paid by the service organization is buried in a tax-exempt fee. (Also see Rebates, page 10.)

5. Input Tax Credits for Purchases

The input tax credit is a key element of the GST system; it is the mechanism which eliminates any direct cost impact of GST for anyone engaged in *commercial activity*. Those providing taxable supplies can recover the tax they paid on related purchases through input tax credits. The tax paid on purchases (*inputs*) is subtracted from the tax collected on *sales* and only the difference is remitted to the government. (Refer to Exhibit 1.) If the tax paid exceeds the tax collected, the government refunds the difference.

(a) Timing

Input tax credits can be claimed when purchases are made — the credits are not tied to the eventual "sale" of the goods. And, unlike income tax, GST is not amortized over the life of capital assets so GST paid on acquisitions of capital property can be claimed right away, i.e. in the first GST return filed after the purchase. Since input tax credits can be claimed in full when the bill is received, the purchaser may receive a tax credit for a purchase in advance of paying for it.

For example, assume an organization is a GST registrant, files returns on a quarterly basis and purchases a number of goods in the first quarter, January through March. The GST paid is creditable against any tax collected on sales in that 3-month period. Even if the organization did not sell any goods until April, the credit would be claimed on the first quarter GST return (filed between April 1 and April 30). As the GST paid exceeds the GST collected, the organization would receive a refund from the government equal to the amount of GST paid on purchases. If the organization sold goods in the second quarter but had no purchases, it would be required to remit all the GST collected on sales as there would be no input tax credits to reduce the amount collected on sales.

Input tax credits, available to GST registrants providing taxable goods and services, are different from ***rebates*** available to charities and qualifying non-profit organizations, discussed below.

(b) Restrictions

Of course, expenses that do not attract GST (salaries, exempt purchases) are not eligible for input tax credits. In addition, there are limitations on credits for purchases which have a significant element of personal consumption.

(i) Personal or Living Expenses

Input tax credits for certain expenses of a personal nature including clothing, entertainment or gifts, may be claimed only if specific conditions are met. The general rule is that if the property or service is **exclusively** for the personal benefit of the employee, no input tax credit may be claimed by the employer unless:

- the registrant sells the supply, at fair market value, to that individual (in which case GST would be collected on the sale); or
- the benefit from providing the good or service would not be considered a taxable benefit under the Income Tax Act, had it been provided to the employee for no charge.

(ii) Food, Beverage and Entertainment Expenses

Only 80% of GST paid on these expenses can be recovered through input tax credits. (This provision mirrors the income tax provision which caps the deductibility of these expenses at 80%.) Credits are claimed in full during the year but 20% is "recaptured" by Revenue Canada at the end of the year; the recaptured credit is paid on the first GST return of the next year. This provision applies to the cost of tickets for a theatre, concert, athletic event or other performance and the cost of entertaining guests. The 20% recapture does not apply when the expense is for a fund-raising event or an activity to which most staff are invited, such as a lunch on set or an office party.

(c) Apportionment Rules

When taxable purchases are used by an individual registrant for a combination of business and personal activities, or by an organization to provide both taxable and tax-exempt goods or services, input tax credits can be claimed only for that portion or percentage of use attributable to commercial taxable activity. Further details on apportionment rules for charities and non-profit organizations providing **mixed supplies** are provided below.

6. Rebates

While input tax credits relate to the tax paid to produce or provide **taxable** supplies, there is a second mechanism — rebates — for recovering some of the GST paid on purchases relating to the provision of **tax-exempt** supplies. Rebates are available **only** to certain *public sector bodies* including *charities*, *qualifying non-profit organizations* and *selected public service bodies*. If the organization qualifies as one of these entities on the last day of the claim period or fiscal year, it is eligible for a partial rebate of GST paid on expenses, **whether or not it is a GST registrant**.

Expenses qualifying for the rebate are generally those incurred to provide tax-exempt goods and services only. Eligible expenses include such things as general operating costs related to tax-exempt activities and items purchased for resale at exempt fundraising events, as well as purchases of capital assets used *primarily* (50% or more) for tax-exempt activities.

For those charities and qualifying non-profits using the simplified accounting method (see page 13) expenses are treated differently.

(a) Rebate for Charities and Qualifying Non-profit Organizations

Charities include those organizations registered as such under the Income Tax Act; **qualifying** non-profit organizations are those receiving at least 40% of annual revenues in the form of **direct** government support. (Loan guarantees or low-interest loans are not considered direct financial assistance, nor is the provision of rent-free space.) Revenue from provincial lottery funds is considered direct funding.

The government support must be identifiable in audited accounts. If government funding is less than 40%, no rebate is available to non-profit organizations for GST paid on purchases relating to exempt supplies.

Charities and qualifying non-profits are eligible for a rebate of 50% of the GST paid on those purchases **not** attributable to a taxable activity. That is, the rebate is available on purchases made to provide **exempt** supplies (and input tax credits may be claimed for GST paid to provide taxable supplies).

(b) Rebate for Selected Public Service Organizations

Selected public service organizations, including hospital authorities, non-profit school authorities and universities, public colleges and municipalities, are also eligible for partial rebates of GST paid on purchases. Arts organizations operated by these institutions also qualify for the rebate provided they are part of the same legal entity as the qualifying public service body. For more information, contact Revenue Canada, Excise.

(c) Application for Rebate

Only one application for rebate may be made per claim period. If an organization is **not** registered and therefore does not collect GST, a separate rebate claim must be filed. Some groups are eligible to file rebate claims quarterly while others are only able to file annually; the decision is made by Revenue Canada. A sample copy of the rebate claim form for non-registrants appears on the page opposite.

However, if the organization making the claim is registered for GST purposes, the amount eligible for rebate can simply be deducted from the GST that would otherwise be remitted to Revenue Canada. A registered organization claims the rebate at the time of filing the regular GST return. Filing requirements are discussed below under Returns and Remittances.

(d) Apportionment Rules

Charities and qualifying non-profit organizations registered for GST may well be engaged in both taxable and exempt activities. If so, the GST paid on ongoing operating expenses must be apportioned between the two types of activities. Input tax credits are claimable on that portion related to taxable activity, and the 50% rebate may be claimed on those costs associated with tax-exempt activities.

Revenue Canada Customs and Excise | Revenu Canada Douanes et Accise

GOODS AND SERVICES TAX REBATE APPLICATION FOR NON-REGISTRANT PUBLIC SERVICE BODIES

Mail to: **GST Interim Processing Centre**
Ottawa, Ontario
K1A 1J6

Cette formule est disponible en FRANÇAIS

For use by a Municipality, University, School Authority, Public College, Hospital Authority, Charity or Qualifying Non-profit Organization (as defined in Sections 123 and 259 of the Excise Tax Act) that are not required to be registered for GST purposes and that satisfy the requirements of Part IX, Section 259 or 260 of the Excise Tax Act.

- **To complete this form refer to Completion Guide**
- **Please print or type**

A – CLAIMANT IDENTIFICATION

GST Rebate Identification No. ▶

Legal Name

Mailing Address (Number, Street and Apt. No. or P.O. Box No. or R.R. No.)

City	Province	Postal Code	Telephone No.
			( )

Business Address (If different from mailing address)

City	Province	Postal Code	Telephone No.
			( )

Type of Claimant (Choose one only).

1) ☐ Municipality
2) ☐ University
3) ☐ School Authority
4) ☐ Public College
5) ☐ Hospital Authority
6) ☐ Charity (Provide Taxation Registration No.) -
7) ☐ Qualifying Non-profit Organization (See Funding Calculation, Section D, on reverse side of this form.)

This Claim is Being Filed by ▶ ☐ Head Office/Parent ☐ Branch/Division

Language Preference / Préférence linguistique ▶ ☐ English / Anglais ☐ French / Français

B - CERTIFICATION

It is hereby certified that:
1) the information in this application is true, correct and complete in every respect;
2) the amount claimed has not been previously claimed;
3) in addition to any documents submitted herewith, books, records and invoices are available for inspection.

Signature of an Authorized Signing Officer of the Public Service Body

Name (Print)	Position or Rank of Officer	Date Y M D

GST 191E (90/11)

C - REBATE OF GOODS AND SERVICES TAX CALCULATION FOR THE CLAIM PERIOD

• **Claim Period of the Rebate Application** From Y M D To Y M D

Reconciliation of Total Goods and Services Tax Paid for the Claim Period (See lines 200 to 204 in Guide.)

Total Amount of GST Paid on All Purchases for the Claim Period	200	
Deduct GST paid on purchases exported by a charity (amount to be recorded on line 216 below)	201	
GST Eligible for Rebate (Subtract line 201 from line 200.) Enter the amount on line 204 on the line applicable to the claimant type (lines 205 to 209)	204	

Calculation of Rebate of Goods and Services Tax for the Claim Period (See lines 205 to 217 in Guide.)

Claimants who are more than one claimant type and are required to calculate their rebate using more than one rebate factor, should refer to Guide Item 6, Special Rules for Public Service Bodies, for calculation details.

Claimant Type	GST Eligible for Rebate (from line 204)		Rebate Factor		
Charity or Qualifying Non-profit Organization	205		X 0.50 =	210	
Municipality	206		X 0.5714 =	211	
University or Public College	207		X 0.67 =	212	
School Authority	208		X 0.68 =	213	
Hospital Authority	209		X 0.83 =	214	

Rebate Entitlement (Add lines 210 to 214 inclusive.)	215	
GST paid on purchases exported by a charity	216	
Total Rebate (Add lines 215 and 216.)	217	

D - NON-PROFIT ORGANIZATION GOVERNMENT FUNDING CALCULATION

Must be completed annually by a non-profit organization to qualify for a rebate of GST under Part IX, Division VI of the Excise Tax Act.

1) Quarterly Filer: Complete funding information for the past two Fiscal Years (columns 2 and 3).
2) Annual Filer: Complete funding information for column 1. Complete columns 2 and 3 if line F in column 1 is less than 40%.

	(1) Current Fiscal Year End Y M D	(2) Last Fiscal Year End Y M D	(3) 2nd last Fiscal Year End Y M D
A) Total Annual Revenue	.00	.00	.00
Annual Government Funding B) Federal	.00	.00	.00
C) Provincial	.00	.00	.00
D) Municipal	.00	.00	.00
E) Total Government Funding (B+C+D)	.00	.00	.00
F) Percentage of Government Funding $(\frac{E}{A} \times 100)$	%	%	%

NOTE: - The government funding threshold is met when the calculation on line F for column 1 is at least 40%, or the average of the calculations on line F for columns 2 and 3 is at least 40%.
- Annual reports, including financial statements, must be filed annually by all claimants for each of the fiscal years reported above.

FOR DEPARTMENTAL USE ONLY

Input Code

This form is prescribed by the Minister of National Revenue under the Excise Tax Act.

GST 191E (90/11)

EXHIBIT 5

QUICK METHOD OF ACCOUNTING

ARTS ORGANIZATION PROVIDING SERVICES

Facts

Taxable sales for period	$30,000
GST collected on total sales (7% x 30,000)	$2,100
Total GST-included taxable sales (A)	$32,100
Predetermined percentage (B)	5%

Remittance Calculation

A x B	$1,605
Less GST on purchase of capital equipment (cost $10,000)	$700
GST remittance	$905

There is a specific rule for *capital property* (real estate, large purchases such as a photocopier, computer, or bus). The use is not apportioned between taxable and exempt activities. Rather, if a capital purchase is used *primarily* for either type of activity, the organization claims full input tax credits for **primarily** taxable use or claims the 50% rebate for **primarily** exempt use.

There are also special change-of-use rules for capital purchases, discussed on page 31.

7. Special Approaches to Accounting

The next section, Compliance, discusses the administration of GST, but there are two special approaches to accounting of particular interest to the arts community: the Quick Method of accounting for input tax credits and Simplified Accounting for rebates.

(a) Quick Method of Accounting

In an effort to keep the administrative requirements of the GST as simple as possible, the government has outlined a simplified method of accounting for small businesses, those grossing no more than $200,000 in taxable **GST-included** sales. The method — called the Quick Method — simplifies return and remittance procedures since under this method businesses do not have to keep track of the GST they pay on most of their business expenses.

Under the Quick Method, a *person* (or organization) would collect the 7% GST on its taxable sales in Canada. However, for purposes of actually remitting the GST, the government has prescribed predetermined rates. For organizations in the arts community, this pre-determined percentage is generally either 3% or 5% of **GST-included** taxable revenue. The 3% rate relates to retailers and wholesalers and the 5% rate relates to manufacturers and suppliers of services. Therefore, although 7% GST is collected on sales, only 3% or 5% is remitted to the government; input tax credits are then not allowed on most purchases, as the predetermined percentage is deemed to take into account the credits that would otherwise have been taken. However, input tax credits can still be claimed on capital purchases.

Organizations with relatively low business purchases may find the Quick Method attractive. Organizations not electing to use this method must follow the normal GST rules for claiming input tax credits. These rules were described above.
Exhibit 5 illustrates the Quick Method as it might apply to an arts organization that provides services. (Also see Exhibit 15, page 42.) "Election" forms for the Quick Method are available from Revenue Canada.

(b) Simplified Accounting for Rebates

Similarly, charities and qualifying non-profit organizations that register for GST are entitled to use a simplified method for determining GST remittances or refunds. Because of the difficulty in assigning specific purchases to taxable or exempt end uses, the government has proposed a simplified approach:

- charge 7% on all taxable sales,
- calculate remittance as 5% of these GST-included taxable sales,
- claim 100% input tax credit on purchases of real or capital property over $10,000 used primarily (over 50%) for taxable activities,
- claim 50% rebate on all other purchases regardless of end use,
- remit the balance, or file for a refund/rebate.

This method eliminates the need to keep track of the end use of purchases — for taxable or exempt activities — and whether they are eligible for input tax credits or rebates. "Election" forms for simplified accounting are available from Revenue Canada.

Revenue Canada Customs and Excise | Revenu Canada Douanes et Accise

COMPLETE AND MAIL THIS COPY

PROTECTED — When completed

GOODS AND SERVICES TAX REGISTRATION FORM

(See instructions before completing)

If the information above is incomplete or incorrect, complete items 1 to 3.

1. Full Legal Business or Organization Name

2. Trading Name (if different from above)

3. Mailing Address

4. Name of Contact — Title

5. Telephone No. — Area Code

6. Language Preference ☐ English ☐ French

7. Annual GST-Taxable Sales and Revenues (see instruction 8(d) if you are a partnership or a branch)

$

- If $30,000 or less and you do not wish to be registered, go to item 8.
- If $30,000 or less and you wish to be registered, go to item 9.
- If greater than $30,000 go to item 9 (GST registration required).

GST REGISTRATION NOT REQUIRED (check appropriate box and complete Declaration below)

8. I have read the Registration booklet and understand that my business or organization is not required to be registered because (check only one)

a) ☐ GST-taxable sales and revenues did not exceed $30,000 in the past twelve months.

b) ☐ I do not conduct any commercial activity subject to the Goods and Services Tax.

c) ☐ Operations ceased as of — Year — Month

d) ☐ I am a partner in a partnership or operate a branch of a business or organization which is being registered separately for GST. Name of partnership, business or organization.

e) ☐ Other (briefly specify the reason):

GST REGISTRATION REQUIRED

9. Year End — Month — Day

10. If your business or organization has branches or divisions, would you like them to file separate returns? If yes, further information will follow. ☐ Yes ☐ No

11. Briefly describe your major business activity.

12. Enter the numbers which apply to your operation.

Taxation Corp. Acc. No. or Social Insurance No. — Payroll Deduction Account No. (only one) — Custom Importer No. (only one)

13. Do you have goods for resale? ☐ Yes ☐ No

If YES, enter the dollar value of your inventory from the latest financial statement. $

14. Do you sell groceries at the retail level? ☐ Yes ☐ No

15. Please check the appropriate box.

1 ☐ Government 2 ☐ Registered Charity 3 ☐ Non-profit Organization 4 ☐ Financial Institution 5 ☐ University, School, School Board, Hospital 6 ☐ Joint Venture 7 ☐ Not Applicable

DECLARATION

I, ____________________ (Print Name) declare that, to the best of my knowledge, all of the above information is true and complete.

Signature of Proprietor, Partner, or in case of an Organization or a Corporation, an Authorized Officer — Title — Date

Personal information provided on this form is protected under the provisions of the *Privacy Act* and is maintained in Personal Information Bank RCC/P-PU-065

GST 1E (90/12)

Canada

Disponible en français GST 1F (90/12)

3

COMPLIANCE

1. Registration

(a) Who Must Register?

Any *person* with gross revenues from taxable activities (including zero-rated exports but not sales of capital property) over $30,000 a year must register and begin collecting and remitting GST for all taxable supplies. Businesses grossing less than $30,000 in annual taxable sales are eligible for the *small supplier* exemption and may choose not to register, in which case they do not charge GST on sales or claim input tax credits on purchases. Any *person* (organization or individual) engaged in a *commercial activity*, even a *small supplier*, may register; an organization making only limited taxable sales may still choose to be part of the GST system.

An organization or individual must register when total taxable sales (other than sales of capital property) in the four calendar quarters immediately preceding exceed $30,000. The determination of the $30,000 threshold includes taxable sales in Canada and elsewhere as well as sales made by associates. Therefore, if two organizations, one earning $6,000 a year and the other taking in $70,000, were to amalgamate, the first group would no longer be eligible for the small supplier exemption. And, if an association made taxable sales of $25,000 in Canada and $6,000 at a trade fair outside Canada, it would have to become a GST registrant (although it would not collect GST on foreign sales).

(b) How to Register

Revenue Canada has identified a list of 2 million potential GST registrants, many of whom will have received a registration form. Others can obtain these forms and explanatory literature at their local post office or Revenue Canada, Excise Office. Once an organization registers, Revenue Canada forwards an information package.

A sample copy of the registration form appears on the page opposite.

(c) When to Register

If at the beginning of the year it does not appear that a *person* will exceed the $30,000 threshold, registration may be deferred until it becomes necessary. Once the threshold is exceeded, the person is required to register by the end of the first month following the next quarter.

For example, assume an organization earns $6,000 between January and March 1991, $12,000 between April and June, $14,000 between July and September, and an additional $4,000 in the final calendar quarter between October and December. Some time in the third quarter, the organization exceeded the $30,000 threshold. Therefore it has to register by the end of January and it must begin collecting GST as soon as it becomes a registrant.

If the organization exceeds $30,000 in a single quarter, it is required to register immediately and begin charging GST as soon as the registration number is received.

2. Invoicing

Once registered, organizations must begin charging GST on taxable sales. Registrants have the option of collecting GST on either a tax-extra or a tax-included basis. The decision on which one to use will vary from organization to organization. Smaller businesses may prefer to price on a tax-included basis because the tax will be easier to collect, placing no new demands on cash registers to select between taxable and exempt sales under both federal and provincial sales tax regimes.

In the case of admissions, a number of provinces currently apply provincial sales tax to the price of certain tickets. Generally, the provinces do not require the vendor to indicate the amount of tax on the ticket but simply to indicate that the price includes sales tax. Given that the "invoice" is often the ticket itself, this may be a practical way of addressing the application of GST. However, while this may be adequate for sales to consumers, more stringent documentation is required for sales to other businesses so that they may claim input credits in turn. (See Exhibit 6.)

3. Calculating and Recording the GST

Companies are required to segregate and track the GST flowing through the organization. This means adjustments to accounting procedures so that the information is available for filing of GST returns and for audits. Most suppliers do not need to acquire sophisticated computerized systems in order to track GST; adjustments to current systems will likely suffice. In fact, if manual accounting systems are used, it would be sufficient to add an extra column to the sales and purchases journal.

The requirements of the system can be divided into two parts:

- obligations arising out of GST collectible on sales, to determine the amount of GST collected, and
- obligations arising out of GST on purchases, to determine input tax credits allowable (to be used to offset tax collected on sales) and/or the amount eligible for a rebate, if the vendor is a charity, qualifying non-profit organization or other public service body.

(a) Accounting for Sales

Each time a good or service is "sold", the vendor is required to identify the GST collected on the sale. The accounting system should identify if tax was collected (i.e. the good or service was fully taxable

EXHIBIT 6

DOCUMENTATION REQUIREMENTS

Under $30, supporting documents must include:

- vendor's name or trading name;
- date when GST on that supply was paid or became payable (for receipts, this is generally the date indicated on the receipt; for written agreements, it is the time the payment is due); and
- the total amount paid or payable for the supply.

Between $30 and $150, the following **additional** information is required:

- GST charged or, if GST is included in the price, a statement indicating this (if one document is used for both taxable and exempt supplies, the tax status of each supply has to be indicated separately); and
- supplier's GST registration number.

$150 or more, the following **additional** information is required:

- purchaser's name, trading name or name of the authorized agent or representative; and
- a description sufficient to identify the supply.

and not zero-rated or exempt) and, if so, whether the good or service was sold on a GST-included or GST-extra basis. The GST collected on taxable sales should then be posted to a GST payable account. For financial reporting purposes, taxable sales should be recorded net of GST.

Suppliers need controls in place to ensure that exempt and zero-rated sales on which no tax is collected meet all the technical requirements, so that the business avoids the risk of interest and penalties. For example, if goods are coded as zero-rated because they will be exported, it is necessary to ensure that they are in fact exported, and that the tax code is not misused.

(b) Accounting for Purchases

Businesses must record GST paid on purchases/inputs if they wish to be able to claim input tax credits. The only exception is for businesses engaged **exclusively** in tax-exempt activities, in which case no input tax credits are allowed and there is no need to track GST on purchases.

For businesses engaged solely in taxable activities, GST paid on inputs is the only information required to determine the remittance. The accounting system must indicate whether purchases were priced on a GST-included basis or with GST identified separately. (Bookkeeping is somewhat easier if GST is separate.) Generally, on GST-included items, the purchaser may assume that the GST is equal to 7/107ths of the price of the good or service **before** provincial sales tax is applied.

There is no tax paid on zero-rated and exempt items and no credit may be claimed. Similarly, purchases from small suppliers do not attract GST. In addition, for supplies of real property and imported services, the purchaser may be required to self-assess the GST. As a result, it will not be included in the price of the item at the time it is recorded as a purchase.

(c) Mixed Supplies

Where an organization is engaged in making taxable and exempt supplies, an additional layer of complexity is added. Inputs have to be separated into those which are for use in taxable (including zero-rated) sales (eligible for input tax credits) and those for use in exempt sales (for which no credit may be claimed).

Some accounting systems may be able to identify these purchases according to their end use, but any allocation method can be used as long as it is reasonable under the circumstances. Suggested methods include the ratio of:

- taxable revenues to total revenues;
- number of taxable transactions to total number of transactions;
- number of employees engaged in taxable activities to total number of employees;
- inputs directly attributable to taxable activities to inputs directly attributable to exempt activities.

For example, if all sales of used goods are exempt, but concession sales are taxable, the accounting system could indicate after each purchase — with a "T" or an "E" — whether the item is for a taxable or exempt activity. At the end of the reporting period, the report of purchases for use in taxable activities can be used to identify the amount available for credit. The report identifying purchases for use in exempt activities can be used to determine the amount eligible for a rebate, if the organization qualifies.

4. Keeping Records

To ensure that input tax credits are claimed only where GST has been paid, the government requires that supporting documentation be retained for six years. Failure to have this documentation on file when audited could result in the denial of input tax credits. The documentation is essentially the same as that generally retained to support expenses claimed under the Income Tax Act — receipts or any other validly issued or signed documents for purchases on which GST is paid or payable. Businesses will want to ensure that all invoices for taxable purchases over $30 include the supplier's GST registration number. (Exhibit 6 summarizes the information requirements.)

Notwithstanding these documentation rules, the government has indicated that registrants are not required to obtain supporting documentation for the following:

- purchases from coin-operated machines;
- reasonable reimbursements, on a per diem basis, to employees for meals, automobile expenses and incidental costs incurred while travelling within Canada for business reasons;
- other cases prescribed by regulation where the Minister is satisfied that it would be impractical to require the issuance of supporting

EXHIBIT 7

FILING AND REMITTANCE REQUIREMENTS

Monthly

- annual taxable sales over $6 million
- threshold determined by reference to preceding fiscal year or total for fiscal quarters ending in current year
- return and remittance due one month after end of each month

Quarterly

- annual taxable sales $6 million or less
- threshold determined by reference to preceding fiscal year or total for fiscal quarters ending in current year
- return and tax due one month after end of each quarter
- registrants may elect to file monthly

Annual, with quarterly instalments

- annual taxable sales $500,000 or less
- threshold determined by reference to preceding fiscal year
- if sales exceed $500,000 by end of first or second fiscal quarter, must switch to quarterly
- quarterly instalments due by the end of each quarter
- no quarterly instalments if total annual GST remittance less than $1,000
- annual return reconciling instalments due within three months of year end
- registrants may elect to file monthly or quarterly

documents, or where other satisfactory documentary evidence of tax paid or payable is maintained by the registrant.

5. Returns and Remittances

(a) Frequency

Returns and remittances are filed monthly, quarterly or annually, depending on the sales volume of taxable supplies of the registrant, usually meaning the entire legal entity. At the option of the registrant, either the calendar year or the fiscal period for income tax purposes (i.e. taxation year) may be selected as the basis for filing. Exhibit 7 summarizes the rules regarding frequency. Organizations may elect to accelerate filing frequency and to allow for separate filing by divisions or branches. Election forms and details are available from Revenue Canada, Excise.

(b) Timing of Liability

A GST registrant is liable for remitting tax collected (and eligible to claim input tax credits for tax paid) when payment is due, whether or not it is actually received (or paid). In other words, tax is payable at the time the payment for the supply is made to the supplier or the time it becomes due, whichever is earlier. The legislation states that tax becomes due when it is invoiced. Where there is a discrepancy, it becomes due on the earliest of:

- the day on which an invoice for the amount is issued;
- the date of the invoice;
- the day on which the invoice would have been issued, if not for an undue delay; and
- the day on which the amount becomes due under an agreement in writing.

The rules vary somewhat depending on the type of supply. Exhibit 8 summarizes the timing of GST liability for various types of supplies.

EXHIBIT 8

TIMING OF LIABILITY

General Rule
Earliest of: date of payment for supply, date invoice issued,* or date payment becomes due under an agreement in writing**

Exceptions

- Sale of goods — Earlier of date determined under general rule and the end of the month following the month in which ownership or possession of the goods is transferred to the purchaser
- Sale of goods on consignment — Earlier of date determined under general rule and the end of the month following the month in which **ownership** of the goods is transferred to the consignee or the goods are (re)sold by the consignee
- Sale of real property — Earlier of date of transfer of ownership and date purchaser takes possession under agreement of purchase and sale
- Lease in writing — Earlier of date of lease payment and date payment becomes due under the lease

* Invoices are treated as if they were issued on the earliest of the date of issue, the date of the invoice, or the date they would have been issued if there was no undue delay in doing so.

** Deposits are taxable when they are applied as consideration/payment under the agreement or are forfeited.

Construction contracts follow the general rules. Tax falls due when payments for the work under the contract are made or are invoiced, whichever is earlier. Once the work is substantially completed, all the tax applicable to the contract price is payable by the end of the month following the month of substantial completion. Further, where a holdback on payment under a construction contract is authorized by statute or by the contract, tax is not payable on the amounts held back until the period for retaining the holdback has expired.

(c) Remittance Procedures

Remittance of any tax owing must be made when the registrant's return is filed. Tax returns for monthly and quarterly filers must be filed within one month following the end of the registrant's reporting period. Persons filing on an annual basis are required to make quarterly instalment payments by the end of the quarter and file their annual return within three months following the end of their reporting period. If the total annual remittance is less than $1,000, quarterly instalments are not required.

Penalties and interest are payable from the first day after the return or quarterly instalment is due. The rates of interest and penalties are defined in the regulations. If a refund is available, it is also claimed in the periodic return. Interest is payable on outstanding refund claims commencing 21 days after the registrant's return is received by Revenue Canada.

4

APPLICATION OF GST TO ARTS ORGANIZATIONS

1. Introduction

When considering the effect of GST on arts organizations, there are two major areas of consideration. The first concerns whether the supply/sale of goods or services is fully taxable, zero-rated or exempt. The second concerns inputs/purchases and the impact of GST on their cost. To a large extent, the determination of whether a supply is taxable or exempt depends on the nature of the organization (i.e. whether it is a commercial organization, a charity or a non-profit organization). Similarly, the impact on purchases is ultimately determined by the type of organization and the nature of its supplies. Organizations in the arts community generally fall into one of three categories:

- organizations engaged exclusively in taxable activities,
- charities or non-profit organizations engaged exclusively in exempt activities, and
- charities or non-profit organizations engaged in a combination of taxable and exempt activities.

(a) Organizations Engaged Exclusively in Taxable Activities

Organizations engaged exclusively in commercial activities grossing more than $30,000/year are required to register and collect GST and are entitled to full input tax credits for the GST charged to them. For example, private galleries and most professional theatre companies fall into this category, as do many non-profit arts organizations. Exhibit 9 illustrates a public gallery with taxable supplies.

(b) Charities or Non-Profit Organizations Engaged Exclusively in Exempt Activities

Organizations providing exclusively exempt supplies are not required to register and collect GST, nor are they entitled to input tax credits. Some arts organizations which do not charge for admission such as galleries and museums fall into this category. For them, the GST forms part of their cost of doing business, although registered charities and qualifying non-profit organizations are entitled to a rebate equal to 50% of the GST paid on purchases.

(c) Charities or Non-Profit Organizations Engaged in a Combination of Taxable and Exempt Activities

Organizations providing a mixture of taxable and exempt supplies are required to register if they surpass the $30,000 threshold on taxable sales; they charge GST on their taxable supplies only. For example, an organization which has exempt admissions and also sells programs would fall into this category. They have to allocate their purchases in order to determine which are eligible for full input tax credits and which are not. Furthermore, registered charities and qualifying non-profit organizations have to identify purchases for which they are entitled to a 50% rebate.

EXHIBIT 9

PUBLIC ART GALLERY

For Quarter Ended March 31, 1991

Revenues

	Amount ($)	Status	GST ($)
Admissions	100,000	T	7,000
Art Rental	5,000	T	350
Grants and Donations	110,000	N/A	0
Investment Income	3,000	E	0
Concession Sales	10,000	T	700
Subtotal	228,000		8,050

Expenses

	Amount ($)	Status	GST ($)
Art Purchases	60,000	T	4,200
Salaries & Wages	135,000	N/A	0
Benefits	5,000	E	0
Commercial Rent	3,000	T	210
Electricity	1,000	T	70
Insurance	2,000	E	0
Bank Charges - interest	2,100	E	0
Services	1,200	T	84
Professional Fees	1,500	T	105
Telephone	800	T	56
Security	1,000	T	70
Art Maintenance	3,000	T	210
Concession Purchases	8,000	T	560
Subtotal	223,600		5,565

GST Payable (8,050 - 5,565) = 2,485

T = taxable, E = exempt, N/A = not applicable

EXHIBIT 10

HALL RENTAL

Facts

- flat fee for hall rental is $10,000
- plus 10% of ticket sales
- tickets cost $45 each
- 5000 tickets sold

GST-Inclusive Ticket Price		GST-Exclusive Ticket Price	
flat fee	$10,000	flat fee	$10,000
box office contribution (10% X 225,000*)	$22,500	box office contribution (10% X 210,300**)	$21,030
	$32,500		$31,030
Plus GST at 7%	$2,275	Plus GST at 7%	$2,172
Total	$34,775	Total	$33,202

* 45 x 5000
** (45 - 2.94***) x 5000
*** (45 x 7/107 = 2.94)

Commentary
The example illustrates that the hall rental is $32,500 under the GST-inclusive scenario and only $31,030 under the GST-exclusive scenario, which represents a net cost increase **before** GST of $1,470 (32,500 - 31,030). The GST payable by the performing group under either scenario is eligible for a full input tax credit.

2. Hall Rental

The costs associated with renting a hall for a performance are taxable. Currently, the rental fee is often based on a flat amount plus a percentage of box office sales. Depending upon the terms of the contract, GST could actually be part of the box office percentage if that percentage is based on GST-included sales. The result would be double taxation, as well as increased hall rental costs, unless the agreement specifies that the ticket revenues must be calculated on a GST-exclusive price. Exhibit 10 illustrates both approaches to GST on hall rentals. (If you rent your hall to others on an irregular basis, it may not be taxable. Details are available from Revenue Canada.)

3. Agents/Promoters

Agents, dealers, managers and promoters play a particular role in the arts sector. Under normal agency rules, the supply of property or services through an agent is treated as a transaction between the artist and the purchaser/engager, although the artist (principal) may wish to authorize the agent to collect the tax on his or her behalf, rather than collecting it him or herself.

Activities by a GST-registered agent on behalf of an artist are taxable so GST applies to the agent's fee. For example, if an agent arranges a performance for an actor or musician, or sells art on behalf of an artist and charges a commission for the "sale", the commission is taxable.

An artist who is registered must collect GST on the supply of the performance or the artwork and is eligible for an input tax credit for the GST paid on the agent's commission (as well as on any other business purchases such as paint, canvas, costumes, makeup, etc.).

Thus, if both artist and agent are GST registrants, and if the agent contracts with an engager or sells an artwork to a collector in the artist's name, the artist is considered to have "sold" directly to the purchaser and to have charged and collected GST on the full performance fee or selling price. (See Exhibit 11, Example A.)

However, in certain cases, artists are deemed **not** to have made the supply of their services to the purchaser. Rather, an agent who represents them is deemed to have made the supply and must collect the GST from the purchaser/engager.

This situation arises where an agent provides goods or services on behalf of an unregistered person and fails to advise the purchaser that the artist is unregistered, or if the agent does not invoice or contract with the purchaser **in the artist's name**. Where this occurs the artist is deemed to have supplied the property to the agent and the agent is deemed to have supplied it to the purchaser. In this case, the artist would receive only the fee before commission (plus GST if registered, of course), while the agent would charge and be responsible for remitting GST on the full sale price (including commission) paid by the purchaser/engager. The agent could claim input tax credits for the GST paid to the artist if registered, and the artist would claim credits for tax paid on business expenses. (See Exhibit 11, Example B.)

4. Purchases by Museums and Galleries

When a gallery purchases art or other artifacts which appreciate in value from a GST registrant, it pays GST and is entitled to an input tax credit. However, when a gallery purchases art from an individual who is **not** registered, no GST is paid. But, the non-registrant individual paid GST on his or her purchase(s) and that tax remains in the price of the good.

The legislation recognizes this buried sales tax on all so-called "used goods" purchased from non-registrants and it therefore allows businesses purchasing goods from unregistered consumers to claim a notional input tax credit based on 7/107ths of the price, as follows:

(a) for purchases after 1993, for purpose of consumption, use or supply in the course of their commercial activities, or
(b) for purchases before 1994, for the purpose of supply (i.e. resale) in the course of commercial activities of the registrant.

This effectively removes the buried GST.

Generally, for used goods which may increase in value over time, including antiques, art, and other artifacts, notional credits are not allowed because the credit could be for a greater amount than the tax paid at the time of purchase. Therefore, in the absence of special provisions, the purchaser is unable to recover any GST buried in the price.

There are two exceptions to this rule. Dealers in appreciating used goods who are purchasing for use in their commercial activities and museums and galleries with taxable admissions are entitled to claim a notional credit in the same manner as for non-appreciating goods. As a result, if a gallery charging taxable admissions purchases art or other appreciating used goods from an individual, it is entitled to notional input tax credits, i.e. 7/107ths of the amount paid for the item. Special rules apply if the item is subsequently exported after this notional credit has been claimed.

Museums and galleries are entitled to a notional credit only if they file an election with the Minister along with their regular return. If they do not make the election, they are not entitled to a credit for the purchase; it is an appreciating used good. Whether they make the election or not, they are still required to collect GST if the work is resold.

EXHIBIT 11

GST TRANSACTIONS BETWEEN AN ARTIST AND GALLERY

EXAMPLE A

Facts

Gallery sells artwork in artist's name and charges GST on artist's behalf

Price of art sold $1000

Commission $400

Transactions

1. Gallery charges purchaser ($1000 + $70 GST) $1070
2. Gallery "charges" artist ($400 + $28 GST) $428
3. Artist receives $642
4. Artist remits GST on sale ($70 - $28) $42
5. Gallery remits GST on commission $28
6. Government receives GST $70

EXAMPLE B

Facts

Gallery sells artwork without notifying purchaser that artist is not registered.

Price of art sold $1,000

Gallery commission $400

Gallery commission and artwork are taxable

Transactions

1. Gallery charges purchaser ($1000 + $70) $1070
2. Gallery pays artist $600
3. Gallery remits GST on sale $70

Commentary

In example B the artist is deemed to have sold the work (or provided the service) to the gallery/agent, and the gallery is deemed to have sold it to the purchaser (without providing any service to the artist). As the artist is not a GST registrant, no tax is charged to the gallery (so the gallery does not claim any credits).

The government receives the same amount of tax in either case but the unregistered artist cannot recover the GST paid on materials used to create the artwork.

If the artist in Example B was registered but the agent did not contract in the artist's name, the artist would charge tax on the deemed sale to the gallery ($600 + $42) and the gallery would claim a tax credit ($42) and remit $28.

5. Royalties and Collectives

Artists, galleries, performing companies and others must pay royalties for the right to use a particular original work such as a piece of music, choreography, play or script. GST is paid on royalty fees when the use takes place in Canada or there is a right to use the work in Canada. (To the extent that these fees are attributable to the commercial activity of a registrant, the registrant is entitled to a full tax credit for GST paid on the royalty fee.)

An artist who receives royalties is required to collect GST on that revenue. Therefore, if a musician writes a piece of music and receives revenue from other musicians for the right to perform the piece, this is a taxable supply and the composer is required to collect GST. If the royalty is for a right to use the work exclusively outside Canada, no GST is charged.

A special provision exists when certain prescribed agents (such as collectives) supply intangible property, such as the right to use the work of an author, performing artist, painter, sculptor or other artist. Where a prescribed agent supplies rights to an artist's work (rights held either by the artist or by someone else), the holder of the rights is not required to collect GST as he or she is not considered to have made a supply. Rather, the collective is deemed to have provided the rights to the purchaser. The agent therefore collects GST on the payment for the rights (but does not charge tax to the rights holder on any administration fees).

Thus, if the royalty is received through a prescribed collective, the artist is not required to collect GST because it will have been charged by the collective.

6. Performances Outside Canada

When an artist performs outside Canada, these earnings are considered to be outside the scope of the legislation and are not subject to GST. However, the artist's purchases for use on tour are eligible for an input tax credit as they are attributable to a commercial activity. For example, if an orchestra needed special packing cases for instruments for travelling, it would be entitled to an input tax credit for GST paid on the purchase. Similarly, if art shipped to a foreign art fair or exhibition by a gallery required extensive packaging, the GST paid on these purchases would also be eligible for a credit.

7. Donations of Art

Generally, donations of art to charity or the Crown do not attract GST by virtue of being donations. Similarly, donations of art from outside Canada to a registered charity are considered non-taxable imports, and the art does not attract GST at the border provided it is imported by the charity itself. If, however, the item is purchased by an individual in a foreign country, brought into Canada, and subsequently donated, the individual bringing the item through Customs is required to pay GST at the border. Therefore, it is advantageous to make donations prior to importation to avoid payment of GST.

If an artist donates a piece of art to charity, no GST is collected on the supply as there is no payment. The artist would still be entitled to a full input tax credit on purchases made to create the donated work.

5

FUNDRAISING

There are three general exemptions for fundraising activities:

- fundraising activities involving bingo, casinos or other games of chance, including lotteries;
- fundraising activities involving sales of goods, such as auctions or flea markets; and,
- a special provision for fundraising activities involving a supply by a registered charity where part of the payment is treated as a donation, such as fundraising dinners.

1. Games of Chance

Where a *public service body* operates a game of chance and charges admission, the admission is exempt provided all of the administrative and other functions to operate the game, including the taking of bets, are performed 90% by volunteers and, if the activity is a bingo or casino, the game is not played in a professional facility used primarily for the purposes of conducting gambling activities. (Volunteer participation may be calculated by any method you choose: time, numbers, value of work performed.)

Where a charity or non-profit organization offers the right to play the game of chance, such as the purchase of the bingo cards, lottery tickets or the fee to enter a card game, these supplies are also exempt, regardless of where this takes place. However, there are many variables depending on how the hall is rented and the game organized; professional advice is recommended. Further details are available from Revenue Canada.

2. Sales of Goods

Provided four limited conditions are met, the supply of goods other than alcoholic beverages and tobacco products at a sale are exempt:

- the public sector body is not in the business of selling these goods;
- the sales persons are all volunteers;
- the sale price for each item does not exceed $5; and
- the goods are not sold at an event, such as a craft fair, where similar goods are sold by commercial businesses.

3. Fundraising Dinners/Events

Fundraising dinners held by charities usually involve the provision of a ticket (which allows admission to the event) and a charitable donation receipt for income tax purposes. The amount representing the charitable donation has no GST consequences. However, it must be determined whether the portion relating to the dinner/entertainment is taxable or exempt. For GST purposes, the ticket for admission is considered intangible property. Generally, charities are not taxable on the provision of intangible property unless it provides admission to a place of amusement. Place of amusement is defined as any place at which is staged or held any

(a) film, slide show, sound and light or similar presentation,
(b) artistic, literary, theatrical, musical or other performance, entertainment (such as a dance) or exhibition,

(c) fair, circus, menagerie, rodeo or similar event, or

(d) race, game of chance, athletic contest or other contest or game; includes a museum, historical site, zoo, wildlife or other park, place where bets are placed and any place, structure, apparatus, machine or device the purpose of which is to provide any type of amusement or recreation.

Therefore, when reviewing whether the dinner/entertainment portion is taxable, it must be determined whether the ticket provides an admission to a place of amusement. For example, if the entertainment portion of a fundraising dinner consisted of a speaker presenting a speech on GST, the ticket would most likely not be considered to be providing an admission to a place of amusement. As a result, the portion related to the dinner/entertainment would be GST exempt. Conversely, if the entertainment portion consisted of a musical band and dancing, the portion related to the dinner/entertainment would be considered to be taxable as the musical performance on the premises renders it a place of amusement.

If the supplier is not a charity, the entire ticket price is taxable unless the ticket is issued only for the taxable dinner and a separate document is given for the GST-exempt ($75) "gift". (Gifts to non-charitable organizations are not given special treatment for income tax purposes.) Admission to a place of amusement is almost always taxable.

4. Sponsorships

According to the legislation, if a sponsorship is not primarily for radio, television, newspaper or magazine advertising, it is deemed not to be a supply and therefore has no GST consequences. In this regard, it is similar to a donation of money. For registered charities, even if the sponsorship resulted in advertising primarily in the media described above, the supply would likely not be taxable because this type of service is not listed as being taxable when provided by registered charities.

6

MISCELLANEOUS RULES

1. Deemed Supplies

As already noted, GST applies to taxable supplies. In addition, the legislation contains a number of provisions which "deem" certain activities to be supplies for GST purposes, including:

- appropriation of property for the personal use of an individual or a shareholder, partner or related person,
- the provision of taxable benefits to an employee, and
- change of use of a building from residential use to rental property or a change of use of capital property by a business to an exempt use.

Each of these "deemed supplies" is discussed below.

(a) Goods Appropriated for Personal Use

A supply is deemed to have occurred when a registrant organization appropriates property it acquired or produced in the course of its commercial activities for the benefit of shareholders, partners, beneficiaries or members or their relatives. For example, if a theatre gives away a certain number of tickets per season to families of the actors or other qualifying persons identified above, the gift of the tickets is a supply. The theatre must therefore remit GST as if the tickets were sold.

This does not apply to goods given away to people other than shareholders, partners, beneficiaries, members, or their relatives. For example, if a theatre gives away 100 tickets to a radio station, no GST applies.

(b) Employee Benefits

Most commonly offered employee benefits have no GST consequences. For example, the provision of life insurance or dental benefits is exempt and hence requires no special GST treatment. However, employers giving property or services to employees or officers for use in commercial activity are considered to be making a supply. If a benefit is considered taxable, such as the provision of free theatre or concert tickets, the amount reported for income tax purposes is considered to be a taxable supply and GST is payable on that amount. The employer is deemed to have collected the tax on the last day of February after the year in which the benefit was conferred on the employee. As the employer is deemed to have collected the tax, the employer is liable for the payment.

2. Change of Use

Special change-of-use rules apply to capital property and real estate on which input tax credits have been claimed. Real property is generally land and buildings and anything permanently affixed to land. Capital property includes all capital property for income tax purposes, including land and improvements thereon, but does not include property in class 12 or 14 of the capital cost allowance classes. Class 12 includes low-value assets (such as small tools, dishes, cutlery and motion picture films), for which a 100% write-off for income tax is allowed. Class 14 includes

patents, franchise concessions and licences for a limited period. Further, intangible property and cultural property (that meets the criteria of the Cultural Property Export and Import Act) are excluded from property that can result in a capital gain or loss under the Income Tax Act. Therefore, none of these types of property is subject to the capital property rules.

Essentially, the input tax credit claimed at the time of purchase follows the life of the property. If the use of the purchase changes beyond a certain level, the registrant is required to adjust the input tax credit.

(a) Capital Property

In order to obtain the initial input tax credit, it must be demonstrated that capital property is being used primarily (more than 50%) in a commercial activity. If the commercial use is 50% or less, no input tax credit is available. However, if an asset acquired for use primarily in an exempt activity is subsequently used primarily for commercial activity, the registrant is "deemed" to have acquired the asset and is entitled to claim an input tax credit at that time. The credit is equal to the lesser of:

(a) the tax calculated on the fair market value of the asset at the time its use changes, or
(b) the tax paid on the acquisition of the asset, including improvements, less any relief from that tax in the form of rebates.

For example, if an artists' centre purchases a computer to record exhibitions in the centre to which no admission fee is charged, it purchases the computer for an exempt activity, i.e. as the final consumer, and is not entitled to an input tax credit. (It may qualify for a rebate of GST paid on purchases depending upon its status.) If the artists' centre subsequently decides to begin charging admissions, all capital property (including the computer) is subject to the change-of-use rules. The artists' centre would be entitled to an input tax credit equal to the lesser of (a) the GST paid on its purchase of the computer and other capital property LESS the rebate, if any, received, or (b) the GST on the fair market value of the capital property at the time use changes.

If, on the other hand, the asset changes from being primarily for use in commercial activity to being primarily for use in an exempt activity, the registrant is deemed to have sold the asset and is required to remit GST based on the fair market value at the time the use is changed.

In the example above, if the artists' centre begins exhibiting its art for no charge, it ceases its commercial activities and is deemed to have made a supply of the computer and other capital property. As a result, it is required to remit GST on the fair market value of the capital property at the time of change of use.

There are also, under certain circumstances, special provisions for changing the use of musical instruments. Contact Revenue Canada for details.

(b) Real Property

A credit is allowed on real property to the extent that the property is used in a commercial activity — even if the property is not primarily for commercial activity. In other words, the 50% use test does not apply. The input tax credit is proportional to the use of the property in commercial activity. Where the proportion of use changes over time by more than 10%, a change of use has occurred and the registrant is deemed to have acquired the relevant portion of the property or disposed of it. In the first case, if the property's commercial use increases, the registrant is deemed to have acquired it and is eligible for an input tax credit proportional to the increase in commercial use. The credit is determined the same way as for capital property. If the commercial use decreases by more than 10%, the registrant is deemed to have disposed of that part of the property and tax is payable to recapture the input tax credit previously claimed.

If the registrant is a non-profit organization or a charity, the rules for capital property apply for real property as well. That is, input tax credits and change of use are determined based on whether the real property is used primarily in commercial or non-commercial activities.

7

TRANSITION

1. Transitional Rules for Payments

A number of rules were developed for payments on goods and services bridging the implementation period, especially for those businesses dealing with FST.

In general terms, for sales of goods, GST applies to any transaction after January 1991 and on any 1990 transaction paid for after May 1, 1991. For services rendered in 1990 and paid for before May 1991, no GST applies; those rendered after January 1, 1991 are taxable. Services spanning the implementation date are taxable on that portion performed in 1991.

For most leases, GST does not apply if these were entered into before August 8, 1989; for automobiles, leases signed before 1991 do not become taxable until 1994.

A special transitional rule was introduced for subscriptions. Any amount paid before 1991 for a subscription to a magazine, newspaper or other periodical did not attract GST, regardless of when the publications are delivered to the subscriber. However, GST applies to all amounts paid after 1990. These rules do not apply to subscriptions to a series of performances, such as a subscription to an orchestra or theatre series. Rather, the general rules for services apply as outlined above.

2. Transitional Credit

In order to mitigate the costs of implementing GST, the government introduced a transitional credit for small businesses registered for GST. Businesses with taxable sales under $500,000 in any three-month period beginning in 1990 or in their first fiscal quarter of 1991 are entitled to claim a one-time credit of up to $1,000.

The credit is 2% of sales in any fiscal quarter beginning in 1990 or before April 1991, to a maximum of $1,000 for registrants with taxable sales of $50,000 in the quarter. Where sales in the quarter do not exceed $15,000, the credit is $300. The credit may be claimed on any GST return covering a reporting period ending in 1991. Annual filers must file a rebate claim form for the credit within three months of the end of their reporting period. Claim forms are available from Revenue Canada.

3. Inventory Rebates

The government is refunding the FST contained in resale inventories held as of January 1, 1991, provided application is filed before 1992. Prescribed rebate percentages are applied to an organization's cost of inventory (or component parts) to determine the amount of the claim. The major prescribed rebate factors are as follows:

(a) 8.1% on goods taxed at the general FST rate of 13 1/2%;

(b) 5.6% on goods taxed at the lower construction and building materials FST rate of 9%.

The rebate applies to new and unused goods such as programs held for resale, gift shop inventory and finished goods inventory, and parts and components that would otherwise be incorporated into goods for sale. **Only those goods which were subject to FST** are eligible for the rebate. For example, books were not subject to FST; therefore there is no rebate available. Posters and cards were subject to FST; therefore, they would qualify for the rebate at the general rate of 8.1%. Because the rebate factors are averages, some organizations could receive larger refunds than the actual tax content whereas others could receive less.

4. Pricing

Because of the elimination of the existing FST, it will be necessary for organizations to examine their selling prices on goods. Key considerations include:

- How much will prices be reduced for FST applied on them?
- How much, if any, of the ongoing savings from the removal of the FST on input costs will be passed on to customers?
- Will prices include GST or will the 7% be added at the time of sale?

To answer these questions properly, businesses must know how much FST is currently included in their purchase costs and selling prices, what portion of these savings is being passed on to them by their suppliers, how their customers react to a price increase or decrease, and how their competitors are responding to the new GST. For those organizations whose pricing is determined by applying a standard percentage gross margin to the cost of goods sold, care must be taken to ensure that these margins are adjusted to reflect the fact that FST no longer constitutes part of their cost of goods.

5. Payments Based on Percentage of Sales

In many organizations, payments such as sales commissions, franchise fees, royalties and rents are based on a percentage of sales. Currently, most wholesalers' and retailers' sales include FST. The removal of FST means that theoretically prices should decrease. Because of this, there may be a proportional drop in the price on which various percentage payments are calculated. This could require adjustments in payment structures to give the recipient the same amount after GST as before. In particular, the effect of GST on agreements for the rental of halls and auditoriums should be examined.

6. Point-of-Sale Equipment

For most organizations in the retail, service and entertainment sector, existing point-of-sale equipment has to be modified or replaced to deal with the GST. This is primarily due to the need to accommodate two taxes (GST and provincial tax) and, possibly, exempt or zero-rated sales. The four Atlantic provinces are applying PST on top of the federal tax, Quebec is harmonizing the provincial and federal systems, while Ontario and the three western provinces with retail sales tax are applying the two taxes separately.

8

GLOSSARY

Business: a profession, calling, trade, manufacture or undertaking of any kind; generally involves the supply of taxable goods and services for payment; an organization may be in business whether or not the activity is for profit; individuals must have a **reasonable expectation of profit**

Charity: as registered under the Income Tax Act

Commercial Activity: any **business** or concern in the nature of trade, including some activities of non-profit organizations, but not employment or any activity providing exempt supplies

Consumer: the ultimate purchaser and taxpayer; pays 7% GST on most goods and services and is not eligible for any input tax credit or rebate

Excise: the division of Revenue Canada dealing with GST and other non-income tax matters

Goods: property of any kind, including personal property, a right or interest of any kind, but not including money; also see Property

Exclusively: more than 90%

Exempt Supply: a good or service which does not attract GST when sold; exempt supplies are listed in Schedule V of the Excise Tax Act; purchases of exempt supplies are not eligible for input tax credits

Federal Sales Tax (FST): old federal sales tax regime where tax applied at the manufacturer's level on many manufactured products

Input: materials and services used in the creation/production of goods or services; used in providing supplies

Input Tax Credit (ITC): credit allowed to GST registrants equal to the GST paid on goods and services used in business

Non-Profit Organization: an organization solely for a purpose other than making a profit; does not include charities; qualifying non-profit organizations receive 40% or more of annual revenues as direct government support

Person: for tax purposes means an individual, corporation, partnership, charity, union, association, society, or any kind of organization

Prescribed Collectives: those collectives, as identified by Revenue Canada, which charge GST to copyright users but whose services to rights holders do not attract GST

Primarily: more than 50%

Property: real or personal property, tangible or intangible, including a right or interest of any kind, but not including money

Provincial Sales Tax (PST): a retail sales tax applied once, at the point of sale, on many goods in all provinces but Alberta; rates and taxable goods vary; Quebec is switching to a multi-stage tax to be administered jointly with GST

Public Sector Body: a government or public service body

Public Service Body: includes non-profit organizations, charities, school authorities, public colleges and universities, and hospitals

Quick Method: an alternative approach to calculating GST remittance/refund; available to those with annual GST-included taxable revenues of $200,000 or less; also see Simplified Accounting

Registrant: a person who is registered or required to apply to be registered for GST

Service: anything other than property, money, employment

Simplified Accounting: an alternative approach to calculating GST remittance/rebate, available to charities and qualifying non-profit organizations

Small Supplier/Trader: business or organization, including self-employed individuals, engaged in commercial activity with gross annual sales under $30,000

Supplier: individual, organization or company "selling" goods and/or providing services

Supply: any "sale" of property or service, in any manner whatsoever - sale, barter, exchange, transfer, licence, rental, lease, disposition or gift

Taxable supplies: all supplies made in the course of commercial activity, except those supplies specified as exempt; may be taxed at 7% or 0%

Zero-rated: a taxable supply, eligible for ITC, but taxed at 0%

9
EXAMPLES

Exhibits 12 through 15 illustrate the application of GST to various organizations within the arts community. The examples are based on the status of the organizations, which is critical in determining the tax status of the goods and services they supply.

EXHIBIT 12

MUSEUM (REG'D CHARITY) WITH TAXABLE SALES FOR THE QUARTER ENDED JUNE 30, 1991

REVENUES

	Amount ($)	Tax Status	GST ($)
Gift Shop	8,000	T	560
Memberships (1)	50,000	T	3,500
Art Rental	10,000	T	700
Admissions	80,000	T	5,600
Donations	60,000	N/A	0
Grants	130,000	N/A	0
Subtotal	338,000		10,360

EXPENSES

Acquisitions			
— from registered persons	50,000	T	3,500
— from unregistered persons	69,000	E	0
Salaries & Wages	150,000	N/A	0
Maintenance	15,000	T	1,050
Telephone	1,000	T	70
Equipment	14,000	T	980
Meals & Entertainment	4,000	T	280
Heat/Light/Power	15,000	T	1,050
Interest Expense	2,000	E	0
Insurance	5,000	E	0
Gift Shop Purchases	6,000	T	420
Subtotal	$331,000		$7,350

GST Remittance — $3,066 (2)

(1) Membership allows members fifty percent off regular admission price — therefore memberships are taxable.

(2) Calculation of GST payable:

GST paid and eligible for input tax credit	$7,350
Less 20% of GST paid on meals and entertainment (280 x 20%)	($56)*
Total input tax credits	$7,294
GST collected	$10,360
GST remittance	$3,066

* Adjustment may be made at end of year.

T=Taxable, E=Exempt, N/A=Not applicable

EXHIBIT 13

BALLET COMPANY (REG'D CHARITY) FOR THE QUARTER ENDED JUNE 30, 1991

REVENUES	Amount ($)	Tax Status	GST ($)
Ticket Sales	80,000	T	5,600
Program Sales	8,000	T	560
Sponsorships	26,000	E	0
Grants	75,000	N/A	0
Donations	25,000	N/A	0
Subtotal	214,000		6,160
EXPENSES			
Salaries	150,000	N/A	0
Hall Rental	9,000	T	630
Costumes	5,000	T	350
Sets	10,000	T	700
Performer Fees	30,000	T	2,100
Royalties	2,000	T	140
Travel	5,000	T	350
Insurance	1,000	E	0
Program Costs	5,000	T	350
Miscellaneous	1,000	T	70
Subtotal	218,000		$4,690

GST REMITTANCE — $6,160 – $4,690 = $1,470

T=Taxable, E=Exempt, N/A=Not applicable

EXHIBIT 14

NON-PROFIT THEATRE FOR THE QUARTER ENDED JUNE 30, 1991

REVENUES

	Amount ($)	Tax Status	GST ($)
Ticket Sales	5,000	T	350
Advertising Revenue (programs)	100	T	7
Fundraising (volunteer-run bake sale)	200	E	0
Grants	11,000	N/A	0
Donations	1,800	N/A	0
Interest Income	350	E	0
Program Sales	200	T	14
Subtotal	18,650		371

EXPENSES

	Amount ($)	Tax Status	GST ($)
Salaries and Wages	8,000	N/A	0
Contracted Performers	2,000	T	140
Employee Benefits	1,000	E	0
Wardrobe	400	T	28
Storage Space Rental	100	T	7
Interest Expense	100	E	0
Royalties	100	T	7
Insurance	250	E	0
Travel Costs in Canada	500	T	35
Travel Costs in United States	2,000	N/A	0
Sets and Props	600	T	42
Theatre Rental	2,500	T	175
Miscellaneous	500	T	35
Subtotal	$18,050		$469

GST Refund — $98

Application of GST

(1) Theatre has elected **not** to be a small trader.

(2) Tax status of admissions — taxable.

(3) GST paid on purchases — $469.

(4) GST collected — $371.

(5) Remittance/refund — Refund of $98 ($371-$469).

(6) Although there is a 50% rebate available to qualifying non-profit organizations, this organization is ineligible since it has no purchases relating to **exempt** supplies; it is entitled to full input tax credits.

T=Taxable, E=Exempt, N/A=Not applicable

EXHIBIT 15

MAGAZINE PUBLISHER FOR THE QUARTER ENDED JUNE 30, 1991

REVENUES

	Amount ($)	Tax Status	GST ($)
Subscription and Single Copy Sales	75,000	T	5,250
Investment Income	5,000	E	0
Advertising	90,000	T	6,300
Grants	5,000	N/A	0
Subtotal	175,000		11,550

EXPENSES

Rent	10,000	T	700
Electricity	6,000	T	420
Machinery & Equipment	25,000	T	1,750
Contributors' Fees	10,000	T	700
Printing/Binding	15,000	T	1,050
Salaries & Wages	50,000	E	0
Vehicle Purchase	30,000	T	2,100
Employee Benefits	4,000	*	0
Distribution	15,000	T	1,050
Promotion	5,000	T	350
Freelance Fees	10,000	T	700
Insurance	1,000	E	0
Miscellaneous	500	T	35
Subtotal	$181,500		$8,855

GST Remittance — $3,115

A. Application of GST

(1) GST paid on purchases — $8,855.

(2) Calculation of GST remittance:

GST paid and eligible for tax credit	$8,855
Less recapture of ITC on vehicle cost in excess of $24,000 (6,000 x 7%)	($420)
Total input tax credit	$8,435
GST collected on sales	$11,550
Net GST remittance: $11,550 – $8,435	$3,115

* To the extent any employee benefits are taxable, an adjustment for GST owing must be made as at the end of February of the following year.

T=Taxable, E=Exempt, N/A=not applicable

N.B. — See overleaf for illustration of simplified accounting method

EXHIBIT 15 (cont'd)

B. Quick Method of Accounting for Small Business

1. As annual GST-included sales are less than $200,000, the publisher is eligible to use the Quick Method.
2. Prescribed Quick Method factor is 5%.
3. Calculation of GST remittance:

Total GST-included taxable sales for period (excluding investment income and grants) = ($165,000 + $11,550)	$176,550.00
Multiplied by prescribed percentage (5%)	$8,827.50
Less GST on capital purchases — machinery & equipment ($1,750) — vehicle purchase to maximum threshold of $24,000 ($1,680)	$3,430.00
Net GST remittance	$5,397.50

10

SOURCES OF INFORMATION

1. Publications

Revenue Canada, Customs and Excise

- Information for Charities
- Information for Non-Profit Organizations
- Information for Small Business
- Information for the Arts and Entertainment Industry
- Should I Register?
- also numerous memoranda on many aspects of GST

Canada Council/Canadian Conference of the Arts

- Introduction to the GST for Individual Artists

Canadian Institute of Chartered Accountants/ Society of Management Accountants of Canada

- The Complete Guide to the Goods and Services Tax

Canadian Society of Association Executives

- The GST Q&A Guide for Registered Charities and Registered Amateur Athletic Associations
- The GST Q&A Guide for Trade, Professional, and Other Non-Profit Associations

2. Revenue Canada Excise Offices

Mailing address	General enquiries Local	Long distance
Newfoundland and Labrador P.O. Box 5500 St. John's, Newfoundland A1C 5W4	772-2851	1-800-563-4950
Nova Scotia P.O. Box 1658 Halifax, Nova Scotia B3J 2Z8	426-1975	1-800-565-9111
Prince Edward Island P.O. Box 1658 Halifax, Nova Scotia B3J 2Z8	566-7272	1-800-565-9111
New Brunswick P.O. Box 1070 Moncton, New Brunswick E1C 8P2	851-3727	1-800-561-6656
Quebec P.O. Box 2117, Postal Terminal Quebec, Quebec G1K 7M9	648-4376	1-800-363-5254

Quebec P.O. Box 6092 Station"A" Montreal, Quebec H3C 3H3	496-1494	1-800-361-8339
Ontario P.O. Box 8257 Ottawa, Ontario K1G 3H7	990-8584	1-800-465-6160
P.O. Box 100 Station "Q" Toronto, Ontario M4T 2L7	973-1000	1-800-461-1082
P.O. Box 5457 London, Ontario N6A 4L6	645-4041	1-800-265-0017
Manitoba P.O. Box 1022 Winnipeg, Manitoba R3C 2W2	983-4525	1-800-665-8749
Saskatchewan P.O. Box 557 Regina, Saskatchewan S4P 3A4	780-7279	1-800-667-8886
Alberta/Northwest Territories P.O. Box 1717 Station "M" Calgary, Alberta T2P 4K4	292-6990	1-800-661-3498
P.O. Box 2296 Main Postal Station Edmonton, Alberta T5J 4N3	448-1309	1-800-661-3498
British Columbia/ Yukon P.O. Box 82110, North Burnaby Postal Station Burnaby, British Columbia V5C 5P2	666-4664	1-800-561-6990